

1968

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ANNUAL REPORT

of

BERKLEY OIL *and* GAS LTD.

for the year ended September 30, 1968

(with comparisons to September 30, 1967)

HEAD OFFICE

Suite 402, 330 Ninth Avenue S.W., Calgary 2, Alberta.

DIRECTORS

L. W. Lee	B. Margolus
R. J. Gibbs	J. R. Wright
D. B. McDougall	D. Miller

all residents of Alberta

OFFICERS

D. B. McDougall.....	President
D. Miller.....	Secretary-Treasurer

TRANSFER AGENT and REGISTRAR

The Canada Trust Company, Calgary, Alberta.

AUDITORS

Thorne, Gunn, Helliwell & Christenson, Calgary, Alberta.

BANKERS

The Royal Bank of Canada, Calgary, Alberta.

COMPARATIVE HIGHLIGHTS

	Gross Acreage	Net Acreage	Royalty Points	Net Oil Reserves (bbls.)	Net Gas Reserves (mcf)	Working Capital
1964	247,544	109,300	323	147,400	33,000	\$ 32,600
1965	476,860	114,827	1,472	250,800	142,000	156,400
1966	879,370	528,327	2,318	243,300	190,000	297,500
1967	569,000	114,000	2,318	228,400	178,000	213,675
1968	1,129,000	146,000	2,490	1,400,000	310,000	260,000
% Change in 1968	+ 98%	+ 28%	+ 7%	+ 512%	+ 74%	+ 21%

NOTE: 1 Royalty Point = 1% gross overriding royalty on one-quarter section of land.

REPORT TO THE SHAREHOLDERS

The last year has been highly successful for your Company and your directors are pleased to present the Company's Annual Report together with the Audited Balance Sheet, Statement of Income and Statement of Source and Application of Funds for the year ended September 30th, 1968. The Company's progress is reflected on the "Comparative Highlights" on the preceding page.

At South Mitsue your Company has a 15½% interest in three wells completed and producing from the Gilwood Sand.

At Central Mitsue your Company has a 13.5% interest in one well producing from the Gilwood Sand and also a 11% interest in a shut-in gas well capable of good production from two zones in the Cretaceous.

Currently we have interests in 40 quarter sections at Mitsue with a net proven reserve to the Company of 1,200,000 bbls. to date. Drilling is continuing and it is anticipated at least four more wells will be drilled in this area at which time, the net reserves of the Company should increase.

Your Company continues to hold over 50% interest in about 200,000 acres on the Winnipegosis trend which trend is being tested by a large multi-well program by several competitor companies.

A 10% interest is held in a wildcat gas discovery well in South-East Alberta. More work will be required to evaluate this discovery.

A 10% interest in over 900,000 acres situated on Banks Island in the Arctic has been acquired. A thick sedimentary section is present with multiple horizon possibilities.

Due to land complexities the drilling of your Company's prospects in the Leduc area have been delayed. However, two of our prospects will be drilled in the very near future and it is hoped that an additional three prospects may be drilled during the coming year. These prospects are for D3 pinnacle reefs which in this area contain very thick pay sections.

Other acreage in which your Company holds interests will be evaluated by test wells drilled by competitor companies during the year at no cost to your Company. It is hoped the South Rainbow lands on which the Company holds a 3% Gross Royalty may be tested shortly.

During the preceding 12 months one dry hole was drilled in search of D3 reef, and two other dry holes were drilled, one in Pembina and one in S.E. Saskatchewan. Four oil wells were completed and two gas wells.

The Company sold 250,000 shares to the public through an underwriting and added \$91,700 to the Company's treasury during the early part of the year.

It is planned during the next year to continue with our programs of exploration which has proven successful in the past year.

Submitted on behalf of the Directors.

D. B. McDougall,
President.

November 15, 1968

BERKLEY OIL AND GAS LTD.

(Incorporated under the laws of Alberta)

BALANCE SHEET

SEPTEMBER 30, 1968

(with comparative figures at September 30, 1967)

ASSETS		1968	1967	LIABILITIES		1968	1967
CURRENT ASSETS				CURRENT LIABILITIES			
Cash		\$ 40,357	\$ 21,091	Accounts payable and accrued liabilities		\$ 83,252	\$ 30,436
Marketable securities, at cost (quoted market value 1968, \$71,008; 1967, \$22,735)		60,937	26,073				
Accounts receivable		46,136	20,425				
Special refundable tax		2,582	—				
Prepaid expenses		2,531	4,860				
		<u>152,543</u>	<u>72,449</u>				
INVESTMENT, at cost (note 1)		<u>180,769</u>	<u>175,000</u>				
CAPITAL ASSETS, at cost (note 2)							
Oil and gas properties						—	397,000
Producing, less accumulated amortization (1968, \$33,158; 1967, \$27,522)		147,534	81,140			488,700	—
Undeveloped		49,735	47,818			300	300
Production and other equipment, less accumulated depreciation (1968, \$37,240; 1967, \$27,137)		24,995	27,548			2,492	1,029
		<u>222,264</u>	<u>156,506</u>			<u>491,492</u>	<u>398,329</u>
OTHER ASSETS						<u>\$574,744</u>	<u>\$428,765</u>
Drilling deposits		9,150	12,210				
Organization cost		10,018	10,018				
Special refundable tax		—	2,582				
		<u>19,168</u>	<u>24,810</u>				
		<u>\$574,744</u>	<u>\$428,765</u>				

APPROVED BY THE BOARD:

D. B. McDOUGALL, Director.
D. MILLER, Director.

AUDITORS' REPORT

To the Shareholders of
Berkley Oil and Gas Ltd.

We have examined the balance sheet of Berkley Oil and Gas Ltd. as at September 30, 1968 and the statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as of September 30, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
November 15, 1968.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants.

BERKLEY OIL AND GAS LTD. **STATEMENT OF INCOME** YEAR ENDED SEPTEMBER 30, 1968 (with comparative figures for 1967)

Revenue	1968	1967
Oil and gas sales	\$ 38,768	\$ 27,096
Royalties	3,882	2,856
Administration and well operating fees	52,601	42,418
Gain (loss) on sale of oil and gas properties	15,469	(347)
Interest and dividends	2,612	13,365
Other	—	11,133
	<u>113,332</u>	<u>96,523</u>

Expense (note 4)		
Operating expenses	12,168	21,506
Rentals — undeveloped properties	7,884	10,265
Royalties	6,738	4,626
Administrative and exploration	63,501	49,894
	<u>90,291</u>	<u>86,291</u>
Income before undernoted items	<u>23,041</u>	<u>10,232</u>

Deduct		
Amortization — producing properties	5,636	5,293
Depreciation — production and other equipment	10,186	10,575
Cost of dry holes and surrendered leases	5,756	53,856
	<u>21,578</u>	<u>69,724</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ 1,463</u>	<u>\$ (59,492)</u>

STATEMENT OF RETAINED EARNINGS YEAR ENDED SEPTEMBER 30, 1968 (with comparative figures for 1967)

BALANCE AT BEGINNING OF YEAR	1968	1967
Net income (loss) for the year	\$ 1,029	\$ 60,521
	1,463	(59,492)
BALANCE AT END OF YEAR	<u>\$ 2,492</u>	<u>\$ 1,029</u>

BERKLEY OIL AND GAS LTD. **STATEMENT OF** **SOURCE AND APPLICATION OF FUNDS** YEAR ENDED SEPTEMBER 30, 1968 (with comparative figures for 1967)

SOURCE OF FUNDS	1968	1967
Income before amortization, depreciation and dry hole and lease write-offs	\$ 23,041	\$ 10,232
Issue of capital stock	91,700	—
Refund of drilling deposits	3,060	—
Transfer of special refundable tax to current assets	2,582	—
	<u>120,383</u>	<u>10,232</u>
APPLICATION OF FUNDS		
Additions to capital assets, net	87,336	80,146
Increase (decrease) in working capital before undernoted item	33,047	(69,914)
Investment in Canadian Fortune Oils Ltd.	5,769	175,000
	<u>27,278</u>	<u>244,914</u>
Working capital at beginning of year	42,013	286,927
WORKING CAPITAL AT END OF YEAR	69,291	42,013
Investment (at cost)	180,769	175,000
WORKING CAPITAL AND INVESTMENT AT END OF YEAR	<u>\$250,060</u>	<u>\$217,013</u>

BERKLEY OIL AND GAS LTD.

NOTES TO FINANCIAL STATEMENTS — YEAR ENDED SEPTEMBER 30, 1968

- INVESTMENT**
The investment comprises 997,017 (1967, 944,767) Common shares in Canadian Fortune Oils Ltd. with an aggregate quoted market value of \$84,746 (1967, \$165,334). These shares represent approximately 28% of the issued capital stock of that company.
- ACCOUNTING POLICIES**
(a) Producing properties (including acquisition and development costs) are amortized on a unit of production method based on the estimated total proven reserves available from each well or battery of wells. Lease rentals on such properties are charged to operating expenses as incurred.
(b) Undeveloped properties are either transferred to producing properties upon successful development, or charged against income as the leases are surrendered. Lease rentals on undeveloped properties, exploration expenses and the cost of dry holes drilled are charged against common share of the company for one dollar to June 30, 1969.
- CAPITAL STOCK**
Shares issued
During the year the company issued 250,000 common shares for a net cash consideration of \$91,700.
Options
At September 30, 1968 a total of 100,000 unissued shares were reserved for outstanding and future options. An option to purchase 10,000 shares at .38 cents per share on or before September 12, 1969 remains outstanding.
Warrants
There were 130,000 warrants outstanding at September 30, 1968. Each warrant entitles the holder to purchase one common share of the company for one dollar to June 30, 1969.
- EXPENSE**
Administrative and exploration expenses include the total of remuneration to directors and senior officers (as defined by the Alberta Companies Act) as follows:
Directors and officers \$31,242
Other employees 11,337
\$42,579
\$26,064
- INCOME TAXES**
Under Canadian Income Tax Law, exploration and development expenditures (including lease acquisition and rental costs) may be deducted from income as incurred and any balance of such costs deductible in future years for tax purposes approximates the net book value of oil and gas properties.